



September 2018

Hurricane Relief FAQ for Single-Family Mortgage-Backed Securities (MBS) and Credit Risk Transfer (CRT) Investors

Fannie Mae stands with those affected by hurricanes, wildfires, and other disasters as they work to recover and rebuild their communities. We're focused on providing support and assistance during such times of crisis. We work with our customers, partners, and Federal and local authorities to bring relief to homeowners in the immediate aftermath of such disasters, and are committed to helping families, neighborhoods, and communities recover in the months and years that follow.

We are also committed to providing transparency to our investor partners. Below are frequently asked questions and corresponding answers for investors related to disasters. We will update this document periodically and may provide information about specific natural disaster events as they occur. For additional information and resources, please visit the [Disaster Relief section](#) or contact Fixed Income Marketing at 1.800.2FANNIE.

To sign up for news and commentary to be delivered to your inbox related to our Single-Family MBS and CRT programs, register [here](#).

Seller/Servicer processes related to disasters

Q1. How does Fannie Mae work with sellers/servicers to respond to disaster events?

We have standing policies in place to help lenders and servicers assist their customers who have been impacted by a disaster. For all Fannie Mae disaster assistance policies, please refer to the [Disaster Response section](#) of our Single-Family website. For our hurricane relief specific updates, please refer to the [Disaster Relief section](#) of our website. Some notable points include:

- Sellers:
 - Before delivery of a mortgage loan to Fannie Mae where the property may have been damaged by a disaster, the lender must take prudent and reasonable actions to determine whether the condition of the property may have materially changed. The lender must determine if an inspection of the property and/or new appraisal is necessary
 - The property eligibility requirements are necessary to support the lender's property representations and warranties. When a lender sells a loan to Fannie Mae, the lender must warrant that the property is not damaged by fire, wind or other cause of loss, and that there are no proceedings pending for the partial or total condemnation of the property
 - DU will not offer a property inspection waiver (PIW) for any properties located in FEMA-declared disaster areas that are eligible for individual assistance
 - For loans in process that were impacted by a disaster and are located in a FEMA Declared Disaster area, the *Selling Guide* allows the maximum age of credit and appraisal documents to 180 days
- Servicers:
 - Fannie Mae's *Servicing Guide* outlines servicer requirements in the event of disaster, including providing assistance in the form of temporary forbearance, repayment plans, and/or modifications



- Servicers are required to determine the extent and nature of any damage to the property. When a regional disaster event occurs, the servicer must determine the extent of the damage to the property (regardless of whether the property is in a FEMA-Declared Disaster Area eligible for Individual Assistance) through reasonable means. We describe property inspection requirements and reimbursement policies in our [Servicing Guide](#).
- Servicers will be reimbursed for the costs associated with inspecting impacted properties securing existing mortgage loans
- If the servicer has any doubt about the effect of the disaster event on the condition of a property or the borrower's employment or income status, it must suspend any legal proceedings, including foreclosure proceedings, already in process until it can determine the accurate status, and make its final decision on the appropriate course of action based upon its findings. The servicer must contact its Fannie Mae Servicing Representative to obtain written approval before granting a suspension that exceeds 90 days.

Q2. How does temporary forbearance work?

Under Fannie Mae's disaster-related policies, the servicer is authorized to grant an initial forbearance plan that lasts up to 6 months if the servicer has achieved borrower contact and if the other eligibility criteria for a forbearance plan is met as described in the Fannie Mae Servicing Guide. However, the servicer is authorized to offer an initial forbearance plan of up to 3 months without achieving borrower contact if the borrower has a hardship due to a disaster event and the mortgage loan is 31 or more days delinquent.

After an initial forbearance plan term of 6 months, which may be offered in separate, shorter increments, the servicer is authorized to grant an extension of that initial forbearance plan of up to 6 months. The servicer must receive Fannie Mae's prior written approval for a forbearance plan to exceed a cumulative term of 12 months as measured from the start date of the initial forbearance plan, or that will result in the mortgage loan becoming greater than 12 months delinquent.

The servicer must suspend the reporting of mortgage loan delinquencies to the credit bureaus as long as the borrower is on an active disaster-related forbearance plan.

Q3. What are the requirements for flood insurance?

Fannie Mae's [Selling Guide](#) requires that the lender must ensure that any flood insurance required for the mortgaged property is in place. Fannie Mae requires flood insurance for any property that has a residential building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that has federally mandated flood insurance purchase requirements, or is located in the Coastal Barrier Resources System or Otherwise Protected Area.

Our [Servicing Guide](#) provides strict guidance about flood insurance requirements in a Special Flood Hazard Area (SFHA) and/or Coastal Barrier Resource System area. Servicers must:

- ensure the property securing the mortgage loan is adequately protected by flood insurance when required, with no lapses in coverage;
- ensure the flood insurance premiums are paid;
- actively monitor all flood maps and community status changes and take appropriate actions as changes occur; and
- provide evidence of flood insurance coverage to Fannie Mae within 10 business days of the date of our request.



In addition, if the servicer cannot obtain evidence of acceptable flood insurance, the servicer must obtain lender-placed insurance to comply with our insurance requirements.

Q4. What are the requirements for property insurance?

Based on our *Selling Guide*, property insurance for properties securing loans delivered to Fannie Mae must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement, which must include, at minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion. The coverage must provide for claims to be settled on a replacement cost basis. Fannie Mae does NOT accept property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement.

Based on our Servicing Guide, in terms of property insurance, servicers must verify annually that the selected insurance carrier, policy amount, and type of coverage meet Fannie Mae's requirements. In addition, the servicer must: (1) ensure requirements contained in any negotiated contract are met, (2) ensure property insurance premiums are paid, (3) immediately obtain new coverage to meet Fannie Mae's requirements if the borrower allows the insurance coverage to lapse, (4) contact its Fannie Mae Servicing Representatives to determine if additional coverage is needed if the insurable improvements of the property securing a mortgage loan are exposed to hazards that a fire and extended coverage policy does not protect against, and (5) change insurance coverage for a mortgage loan when it is inadequate to protect Fannie Mae's interest or, in the instance of lender-placed insurance, causes Fannie Mae to be over-insured.

Q5. Who is responsible if a loan doesn't have required insurance or if the policy(ies) have lapsed?

Our servicers are required to ensure that any required property and/or flood insurance policies are maintained. If a seller/servicer fails to ensure a loan has adequate insurance or allows the policy to lapse, Fannie Mae has remedies (including make-whole payments, indemnification for losses and repurchase) for a seller/servicer's nonperformance as noted in our *Servicing Guide*.

Mortgage Insurance

Q6. What is Mortgage Insurance (MI)?

Mortgage Insurance (MI) is an insurance policy which compensates the policy holder or policy beneficiary for certain losses due to a default on a mortgage loan. MI coverage is designed to protect against a wide variety of default situations, however MI does not cover flood or other property and casualty losses.

Q7. In the event of a default, how does the MI claim process work?

We describe how mortgage insurance works in this [presentation](#). We have also published an MI Commentary, titled "[Understanding the Impact of Mortgage Insurance Coverage on Credit Risk Transfer](#)". Servicers should follow the Servicing Guide for MI claim requirements for specific home retention and liquidation options.

Q8. Can a Mortgage Insurance claim be denied in full due to physical damage?

Yes, all Mortgage Insurance policies include an exclusion for physical damage (i.e., any impairment to a property, whether caused by accident or otherwise, such as flood, earthquake, and any event declared a disaster by the Federal Emergency Management Agency (FEMA) or other governmental agency). If physical damage was the



principal cause of a borrower's default, then the claim can be denied by the mortgage insurer in full. Physical damage is generally considered the principal cause of default if all of the following criteria are met:

1. As of the claim submission date, the property has not been restored to its condition on the commitment date, reasonable wear and tear excepted, and
2. The mortgage insurance company reasonably determines that the estimated cost to restore the property would equal or exceed 25% of the unpaid principal balance of the loan as of the date they elect to exercise a remedy, and
3. The property was either uninsured for loss arising from the physical damage or was insured for an amount which, disregarding normal and customary deductibles not to exceed \$5,000, was insufficient to restore the property to its condition as of the commitment date, reasonable wear and tear excepted, and
4. The default occurred on or after the date that the physical damage occurred or manifested itself, and
5. The property is uninhabitable (which means generally recognized standards for residential occupancy are violated or, in the absence of such standards, a fully informed and reasonable person would conclude that a property was unsafe or unsuitable for habitation as a residential dwelling).

Q9. In what circumstances can a Mortgage Insurance company rescind coverage?

The mortgage insurance company's quality control review may uncover one or more breaches of insurance representations and warranties breaches that would cause the coverage to be rescinded. In this case, Fannie Mae will seek make-whole recoveries from the seller/servicer for an amount equivalent to the MI proceeds that are otherwise contractually due. Fannie Mae will pass through make-whole recoveries to the CAS investor. Such amounts will appear in the remittance file as "repurchase / make-whole proceeds" rather than "credit enhancement proceeds". The timing of such seller/servicer proceeds is likely to lag credit enhancement proceed collections.

Credit Risk Transfer

Q10. How can investors understand potential impacts to their credit risk transfer investments related to disasters?

[Data Dynamics](#) is Fannie Mae's complimentary credit risk transfer analytics tool that provides unique transparency to the market community into our Connecticut Avenue Securities® (CAS) and Credit Insurance Risk Transfer™ (CIRT™) deals. Data Dynamics offers the following features to enable a view into geography, which helps to provide potential impacts of disasters for specific CAS and CIRT deals.

- A Geographic Profile Dashboard that enables market participants to drill down into the profile and performance at a state-level, an aggregate five-digit zip code level or three-digit zip code level of interest. Drill downs include both loan count and percent of total unpaid principal balance (UPB).
- A "Filter to Regions of Interest" that enables market participants to select certain areas that have been built into the tool for quick analysis. Current areas include references to Hurricanes Harvey and Irma as well as Puerto Rico/Virgin Islands. This filter is updated on a periodic basis for various disaster areas.
- A column that displays deal-level percentages of UPB in the indicated CAS or CIRT reference pools where the underlying properties, as reported to us by lenders based on their data at the time of origination, are located in the Special Flood Hazard Area (SFHA) designated by the US Federal Emergency Management Agency (FEMA).



Q11. What updates have been made to CAS Fixed Severity deals to reflect the impact of disaster-related forbearance granted in connection with 2017’s Hurricanes Harvey and Irma?

As we [announced](#) on August 31st, 2017 for Hurricane Harvey and September 22nd, 2017 for Hurricane Irma, the ‘fixed severity’ deals (from CAS 2013-C01 through and including CAS 2015-C03) were updated as follows:

CAS Securities issued under the ‘fixed severity’ framework

Deal	Issuance Date	Prior Treatment of Delinquent Loans in Forbearance for Natural Disasters	Updated Treatment of Delinquent Loans in Forbearance for Hurricanes Harvey and Irma
CAS 2013-C01	October 2013	Reference Obligations become Credit Events at 180 days or more delinquent (regardless of any grant of forbearance)	Loans that are granted temporary forbearance as a result of Hurricane Harvey will not be deemed to have experienced a credit event at 180 days delinquency. Rather, Fannie Mae will wait to evaluate the related loan for a delinquency related Credit Event until the later of: (i) 20 months from the point at which a servicer grants initial disaster recovery relief to a borrower, or (ii) 3 months from the conclusion of its forbearance period.
CAS 2014-C01	January 2014		
CAS 2014-C02	May 2014		
CAS 2014-C03	July 2014		
CAS 2014-C04	November 2014	Reference Obligations become Credit Events at 180 days or more delinquent. However, they become reversed Credit Events if the loan had a payment status reported as current at the conclusion of its forbearance period (or up to three months thereafter if necessary).	
CAS 2015-C01	February 2015		
CAS 2015-C02	May 2015		
CAS 2015-C03	July 2015		

The treatment of all other events defined as credit events under the CAS fixed severity framework will remain unchanged:

- a short sale is settled,
- the related Mortgage Note is sold to a third party during the foreclosure process,
- a deed in lieu of foreclosure is executed, or
- an REO acquisition occurs.



Q12. Do the updates made for Fixed-Severity deals for Hurricanes Harvey and Irma from the 2017 Hurricane Season also apply to other hurricanes?

Hurricanes Harvey and Irma resulted in unique circumstances for which Fannie Mae determined it would make updates to its fixed-severity deals. These types of updates are made on a case-by-case basis and at this time no updates have been made for hurricanes other than Harvey and Irma.

Q13. How does disaster-related forbearance impact CAS Actual Loss deals?

CAS offerings beginning with CAS 2015-C04, issued under the 'actual loss' framework, are not impacted by the update described above and will remain subject to the timing and loss calculations as described in such offerings.

- Disaster-related forbearance will not cause a credit event. Loans in forbearance will reduce the amount of scheduled principal received on the reference obligations, which may extend the lives of the CAS bonds. Under the actual loss CAS framework, losses are not allocated to noteholders until 90 days after the property disposition date.
- Disaster-related forbearance will not cause a modification loss. A modification loss is not passed through to noteholders until a loan is granted a permanent modification. If a loan has not been brought current by the expiration of the forbearance plan, the servicer must evaluate the mortgage loan for a workout option by either extending the forbearance period, entering the borrower into a repayment plan, or assessing the borrower for one of our standard loss mitigation options, e.g., a modification. The percentage of loans in a given reference pool that ultimately are modified pursuant to one of our loss mitigation options may be higher than would be the case in the absence of these natural disasters.
- The loans in forbearance that are 90 days or more delinquent will count toward the Delinquency Test because the delinquency status on the loan will continue to advance. However, temporary forbearance will not affect the Minimum Credit Enhancement test. Hitting either trigger will cause the lockout of unscheduled principal from the subordinate bonds. This is unchanged as a result of recent disaster events.

Q14. Is Fannie Mae's interest payment obligation to noteholders reduced when a loan is in forbearance?

No, Fannie Mae continues to be obligated to pay the full amount of interest due to noteholders, regardless of how many loans may be in a state of temporary forbearance.

Q15. Do the updates to the Fixed Severity CAS deals require an investor vote? Will Fannie Mae update the deal documents to account for this update?

Under the terms of the debt agreements pursuant to which the notes were issued, Fannie Mae can modify the terms of the notes provided that any changes do not adversely affect the interests of certificate holders. We believe that the change that Fannie Mae announced provides a benefit to holders. This is not a permanent amendment of the respective agreements. Although this is not a permanent amendment of the respective agreements, we have nonetheless confirmed via opinion of tax counsel that there will be no tax impact to noteholders. We have provided a formal notice regarding the update to CAS noteholders through our Global Agent, Wells Fargo. This notice is posted on the CTS Link, consistent with the way that information about the deals is formally provided to noteholders.



Q16. What is Fannie Mae's role if a mortgage insurer were to fail to pay a claim?

Fannie Mae retains the MI counterparty risk under its CAS transactions. If a mortgage insurer fails to pay the full amount of contractual proceeds that are due under an MI claim, Fannie Mae will pass through the difference to noteholders as additional credit enhancement proceeds, backstopping the mortgage insurer counterparty risk. For example, in a circumstance where a mortgage insurer is ordered by its regulator to pay partial claims due to its financial circumstances, Fannie Mae will make up the difference between the reduced amount paid by the mortgage insurer and the amount contractually due under the claim. MI policies include an exclusion for physical damage. In physical damage situations, the mortgage insurer does not contractually owe on such a claim, and as such Fannie Mae would not pass through amounts that are not contractually due.

Q17. Who is responsible for losses if the servicer breaches representations & warranties related to ensuring required flood or property insurance?

If a seller/servicer fails to ensure a loan has adequate insurance or allows the policy to lapse, Fannie Mae has remedies (including make-whole payments, indemnification for losses and repurchase) for a seller/servicer's nonperformance as noted in our Servicing Guide. As it relates to Fannie Mae's Connecticut Avenue Securities™ (CAS), if a servicer is required to repurchase a loan, this loan will be treated as a reference pool removal and no loss will result. If the servicer is required to provide us with a full or partial indemnity or make-whole payment, these amounts will be passed through to noteholders as "repurchase make whole" proceeds.

Q18. Where can I find more information on Fannie Mae's Hurricane response for investors?

Fannie Mae publishes relevant announcements and commentary on its webpages for MBS investors and CRT investors. Sign-up to receive commentary delivered to your email [here](#).

For CRT investors, we provide data to help investors evaluate Hurricane impact in our analytical tool, [Data Dynamics®](#).